

Leo Burnett U.S.A.

Media Department



**1997 Philip Morris Companies
*Magazine Negotiation Update***

November 5, 1997

2070338336

Nov97mtg.docst

1997 Projected Spending

Overall spending up 1% vs. YA:

- PM USA expenditures down 12% vs. 1996
- KF expenditures up 12%
- Miller planned spending up dramatically +224%

Discounted Magazine/Supplement Spending (\$MM)				
	<u>PM USA</u>	<u>Kraft</u>	<u>Miller</u>	<u>Total</u>
'96 Proj. Final	\$110.1	\$73.0	\$2.5	\$ 185.6
'97 Proj. Nov.	97.4*	\$82.0	\$8.1	\$187.5
Index vs. '96	88	112	324	101

*No International, Alternative ROP or FSI's in either year

2070338337

TIME INC.

1997 OPEN RATE SPENDING (\$MM)					
	<u>PM</u>	<u>KF</u>	<u>MBC</u>	<u>TOTAL</u>	<u>CURRENT CONTRACT</u>
CURRENT NOV. '97	\$41.4	\$19.3	\$6.0	\$66.7	\$63.0
Final '96 - 13 Mo. Contract	\$52.7	\$20.6	\$1.9	\$75.2	\$72.0
Final '96 - 12 Mo. (on-sale)	\$48.1	\$18.9	\$0.9	\$67.9	"

CONTRACT LEVELS/CIRC. CPM INDEX vs. YEAR AGO		
	<u>CONTRACT LEVEL (MM)</u>	<u>CPM INDEX</u>
CURRENT LEVEL	\$63.0	105.5
NEXT HIGHER LEVEL	\$66.0	104.8
NEXT LOWER LEVEL	\$57-59.9	107.1
NEXT LOWER LEVEL	\$0-57.00	107.6

CURRENT STATUS OF VOLUMES VS. CONTRACT

	Included	Not Included
% Kraft Foods Prototypical	3%	
PM USA Cover Premiums	✓	

Moved to \$63MM discount level since last meeting, however, billing has not yet changed because Time Inc. requested we pick a level which would reflect final open spending

\$700.0M open over next higher discount level of \$66MM

- From \$63 to \$66MM, will achieve savings of \$229M (\$143M - PM, \$20M - MB, \$66M - KF)
 - Additional savings of \$215M (\$124M - PM, \$86M - MB, \$5M - KF) associated with higher kicker level in Sports Illustrated (\$17 - \$20MM)
- Life and Time kickers must be reduced from 50 pages and \$7.0MM respectively, resulting in a total short rate of \$58M (\$51M - PM, \$7M - KF)
- Anticipating 1997 Resource Credits of \$1.0MM - PM, \$0.53MM - Kraft, \$0.15MM - Miller
 - 1997 Resource Credit - 4.13%

TIME INC.

Negotiated waiver of kicker short rate in Entertainment Weekly for achieving 60 total pages in 1997

Need to address kicker levels for two Time Inc. publications where volume is lower vs. year ago

- Life projected at 44.7 pages versus kicker goal of 50 pages
 - Lower kicker levels at 44 pages, 36 pages and 28 pages (no kicker below 28 pages)
 - At 44.7 pages, total short rate of \$22M (\$18M - PM, \$4M - KF)
- Time magazine projected at \$6.9MM versus kicker goal of \$7.0MM
 - Lower kicker levels \$6.5MM, \$6MM and \$5MM
 - At \$6.5MM kicker level, total short rate of \$36M (\$33M - PM, \$3M - KF)

<u>Magazine</u>	Pages/Dollars (\$MM) By Magazine vs. Goal						
	<u>PM USA</u>	<u>KF</u>	<u>MBC</u>	<u>Total</u>	<u>Kicker Goal</u>	<u>Diff.</u>	<u>Max Kicker Discount</u>
Entertainment Weekly	57.7	2.1	0.0	59.8	60	-0.2	6%
Fortune	0.0	0.0	0.0	0.0	0.0	0.0	0%
In Style	25.3	16.0	0.0	41.3	36	+5.3	16%
Life	36.5	8.2	0.0	44.7	50	-5.3	5.5%
Money	1.5	0.0	0.0	1.5	0.0	+1.5	0%
People \$MM	\$11.2	\$16.4	\$0.0	\$27.6	\$18.0	+\$9.6	3%
Sports Illustrated \$MM	\$11.5	\$0.5	\$6.0	\$18.0	\$16.0	+\$2.0	5%
Time \$MM	\$6.3	\$0.6	\$0.0	\$6.9	\$7.0	-\$0.1	7%

<u>Magazine</u>	Short Rate at Current Level \$(M)				Savings at \$66MM \$(M)			
	<u>PM</u>	<u>KF</u>	<u>MB</u>	<u>Total</u>	<u>PM</u>	<u>KF</u>	<u>MB</u>	<u>Total</u>
Life	\$18.0	\$4.0	\$0.0	\$22.0				
Time	\$33.0	\$3.0	\$0.0	\$36.0				
Total	\$51.0	\$7.0	\$0.0	\$58.0	\$267.0	\$71.0	\$106.0	\$444.0
Difference vs Short Rate					+\$216.0	+\$64.0	+\$106.0	+\$386.0

TIME INC.

Some Time Inc. publications have been anxious to discuss franchise covers since final 1997 paging is not in line with 1996 (inserts minimal)

- Convinced In Style to preserve all covers for 1997 despite current 5 page shortfall
- Along with waiver of short rate in Entertainment Weekly for 60 total pages in 1997, will negotiate for PM to retain all covers in 1998 at same level as 1997
- Need to discuss franchise positions with Life given current volume if additional funding is not available

<u>Magazine</u>	Pages/\$\$ Goals to Retain PM Covers - 1997		
	<u>PM USA</u>	<u>Franchise Goal</u>	<u>Diff.</u>
Entertainment Weekly	59.8 Cos.	60 Cos.	-0.2
Fortune	0.0	-	-
In Style	25.3 Tob	30 Tob.	-4.7
Life	44.7 Cos.	50 Cos.	-5.3
Money	1.5	-	-
People	72.4 Tob	80 Tob.	-7.6
Sports Illustrated	\$17.9MM Cos.	\$16.0MM Cos.	+\$1.9MM
Time	30.6	-	-

Recommend moving to \$66MM discount level once volume has been confirmed with Time, Inc.

TIME INC.

Open Spending						
		\$MM				
1994		\$64.7MM				
1995		\$67.0MM				
1996		\$75.2MM				
1997 Proj.		\$66.7MM				
		1997 Circulation CPM Indices vs. 1996 Outgoing CPMs*				
	Disc. '96 Circ. CPM*					
		\$0-57MM	\$57-59.9MM	\$60-62.9MM	Current Goal \$63-65.9MM	\$66-69MM
Entertainment Weekly	\$28.40	107.4	106.9	106.3	105.8	105.7
Fortune	\$55.66	108.4	107.9	107.4	106.9	106.4
In Style	\$30.28	107.4	106.9	106.3	105.8	105.3
Life	\$29.00	107.9	107.4	106.3	105.8	105.6
Money	\$32.30	108.4	107.9	107.4	106.9	106.4
People	\$25.29	106.3	105.8	105.1	104.6	103.8
Sports Illustrated	\$31.28	108.5	108.0	107.0	106.0	104.9
Time	\$24.19	106.4	105.9	104.6	103.8	102.6
Company Total		107.7	107.1	106.2	105.5	104.8
% Diff. vs. '96 Open \$		-	-14%	-9%	-5%	0%

Note 1: One more level at \$69MM+

Note 2: 1996 was a 13 month contract vs. 12 months in other years

*Net effective CPM which includes Resource Credit of 4.13% of earned rates

TIME INC.

Kicker discount levels for Entertainment Weekly, Life and Time are as follows:

Entertainment Weekly

	No Kicker	51 Pages	60 Pages	Current Kicker
				Maximum
				67 Pages
Open	\$76,763	\$76,763	\$76,763	\$76,763
Base Discount	44.35%	44.35%	44.35%	44.35%
Earned	\$42,718	\$42,718	\$42,718	\$42,718
Kicker	0%	2%	4%	6%
PM Rate	\$42,718	\$41,864	\$41,010	\$40,155

Life

	No Kicker	28 Pages	36 Pages	44 Pages	Current Kicker
					Maximum
					50 Pages
Open	\$73,313	\$73,313	\$73,313	\$73,313	\$73,313
Base Discount	30.35%	30.35%	30.35%	30.35%	30.35%
Earned	\$51,062	\$51,062	\$51,062	\$51,062	\$51,062
Kicker	0%	1.5%	3.0%	4.5%	5.5%
PM Rate	\$51,062	\$50,296	\$49,530	\$48,764	\$48,254

Time

	\$5.0MM	\$6.0MM	\$6.5MM	Current Kicker
				Maximum
				\$7.0MM
Open	\$186,300	\$186,300	\$186,300	\$186,300
Base Discount	39.05%	39.05%	39.05%	39.05%
Earned	\$113,542	\$113,542	\$113,542	\$113,542
Kicker	4.0%	5.5%	6.0%	7.0%
PM Rate	\$109,301	\$107,298	\$106,730	\$105,594

All other publications are achieving maximum kicker discount for 1997

Nov97mtg.docst

TV GUIDE

1997 PAGES					
	<u>PM</u>	<u>KF</u>	<u>MBC</u>	<u>TOTAL</u>	<u>CURRENT CONTRACT</u>
CURRENT NOV. '97	38.0	77.4	0.0	115.4	100
Final '96	52.0	72.0	0.0	124.0	115

CONTRACT LEVELS/CIRC. CPM INDEX vs. YEAR AGO		
	<u>CONTRACT LEVEL</u>	<u>CPM INDEX</u>
CURRENT LEVEL	100 pages	107
NEXT HIGHER LEVEL	105 pages	106
NEXT LOWER LEVEL	95 pages	107

CURRENT STATUS OF VOLUMES VS. CONTRACT

	Included	Not Included
% Kraft Foods Prototypical	0%	
PM USA Cover Premiums	✓	

Currently at 115 total pages in TV Guide (confirmed with the publication)

- At 115 page level, savings of \$229M (\$155M - KF, \$74M - PM)

Recommend moving to 115 page discount level

2070338343

TV GUIDE

1994 Pages	102							
1995 Pages	96							
1996 Pages	124							
1997 Proj.	115							
		1997 Circulation CPM Indices vs. 1996 Outgoing CPM's						
TV Guide	'96 Circ. CPM	90 Pgs.	95 Pgs.	100 Pgs.	105 Pgs.	110 Pgs.	(Current) 115 Pgs.	(Match Spending) 120 Pgs.
	\$6.21	107	107	107	106	105	104	104
% Diff. vs. '96 Pgs		-25%	-21%	-17%	-12.5%	-8%	-4%	0%

Note: Also levels at 0-84(109), 85-89(109)

	1996	1997 TV Guide Cover Package				
Cover Position	100+ pages	0-84 pages	85-89 pages	90-94 pages	95-99 pages	(Goal) 100+ pages
4th	17	5	7	10	17	18
3rd	9	3	2	7	9	9
2nd	1	0	1	1	1	1
Total	27	8	10	18	27	28

K-III

1997 OPEN RATE SPENDING (\$MM)					
	<u>PM</u>	<u>KF</u>	<u>MBC</u>	<u>TOTAL</u>	<u>CURRENT CONTRACT</u>
CURRENT Nov. '97	\$6.1	\$2.5	\$0.0	\$8.6	\$7.8
Final '96	\$8.4	\$2.5	\$0.0	\$10.9	\$8.1

CONTRACT LEVELS/CIRC. CPM INDEX vs. YEAR AGO		
	<u>CONTRACT LEVEL (MM)</u>	<u>CPM INDEX</u>
CURRENT LEVEL	\$7.8	106
NEXT HIGHER LEVEL	\$8.6	105
NEXT LOWER LEVEL	\$0-7.79	108

CURRENT STATUS OF VOLUMES VS. CONTRACT

	Included	Not Included
% Kraft Foods Prototypical	1%	
PM USA Cover Premiums	✓	

KIII allowed \$2.8MM open to contribute to 1997 contract for New Woman due to sale to Rodale (in line with Leo Burnett forecast for 1997 volume)

Approximately \$30M over next discount level of \$8.6MM

At \$8.6MM, savings of \$30M (\$11M - KF, \$19M - PM)

Recommend moving to \$8.6MM discount level once volume confirmed with KIII

KIII

Open Rate \$	\$MM				
1994	\$7.4MM				
1995	\$8.6MM				
1996	\$10.9MM				
1997 Proj.	\$8.6MM	1997 Circulation CPM Indices vs. 1996 Outgoing CPM's			
	Discounted '96 Circ. CPM	\$<7.79MM	Contract Goal \$7.8MM	(Match \$) \$8.6MM	\$10.0MM
Automobile	\$43.95	106.5	105.0	103.5	102
New Woman	\$17.86	106.5	105.0	103.5	102
New York	\$71.16	110.0	109.0	107.0	106
Seventeen	\$21.58	111.8	110.3	109.0	107
Soap Opera Digest	\$15.68	106.5	105.0	103.5	102
Soap Opera Weekly	\$13.49	106.5	105.0	103.5	102
Stagebill	\$41.98	108.0	106.0	105.0	102
Company Total	\$30.08	108.0	106.0	105.0	103
% Diff. vs. '96 \$		-	-9%	0%	+10%

Note: Also levels at \$11.0MM+(101)

2070338346

WENNER

1997 PAGES					
	<u>PM</u>	<u>KF</u>	<u>MBC</u>	<u>TOTAL</u>	<u>CURRENT CONTRACT</u>
<u>ROLLING STONE</u> CURRENT Nov. '97	61.4	0.0	13.0	74.4	61.0 Cos.
Final '96	62.7	0.0	12.0	74.7	62.0
<u>US</u> CURRENT Nov. '97	43.3	23.0	0.0	66.3	42.0 Cos.
Final '96	43.8	20.0	0.0	63.8	42.0

CONTRACT LEVELS/CIRC. CPM INDEX vs. YEAR AGO				
	<u>ROLLING STONE</u>		<u>US</u>	
	<u>CONTRACT LEVEL</u>	<u>CPM INDEX</u>	<u>CONTRACT LEVEL</u>	<u>CPM INDEX</u>
CURRENT LEVEL	61 PAGES	105.8	36+ PAGES	105.5
NEXT HIGHER LEVEL	62 PAGES	105.5	NONE	-
NEXT LOWER LEVEL	60 PAGES	115.0	30-35 PAGES	117.0

CURRENT STATUS OF VOLUMES VS. CONTRACT

	Included	Not Included
% Kraft Foods Prototypical	0%	
PM USA Cover Premiums	✓	

Convinced Wenner to allow all company pages to count for discount level but not for franchise positions

- Exceeding goal for discounts by 15 pages in Rolling Stone and 24.3 pages in US
- Currently earning maximum discount in US
- At 74 pages in Rolling Stone, savings of \$152M (\$126M - PM, \$26M - MB)

Meeting Rolling Stone tobacco goal to keep covers (56 - 61 pages)

Meeting US tobacco goal to earn two bonus pages

Recommend moving to 74 page discount level in Rolling Stone

WENNER

ROLLING STONE

'94 Pages	87			
'95 Pages	76			
'96 Pages	75			
'97 Page Proj.	74	1997 Circulation CPM Indices vs. 1996 Outgoing CPM's		
Rolling Stone	1996 Disc. Circ. CPM	(Matching 96) 61 Pages	70+Pages	Updated Contract 74 Pages
	\$37.71	105.5	103	96
% Diff. vs. '96 Pgs		0	15%+	+21%

Note: After 59 pages, discounts increase at 1 page increments

US

'94 Pages	45			
'95 Pages	66			
'96 Pages	64			
'97 Page Proj.	66	1997 Circulation CPM Indices vs. 1996 Outgoing CPM's		
US	1996 Disc. Circ. CPM	1-15 Pages	30-35	(Matching \$) 36+
	\$21.87	143	117	105.5
% Diff. vs. '96 Pgs		-	-17%	0

NEWSWEEK

1997 OPEN RATE SPENDING (\$MM)					
	<u>PM</u>	<u>KF</u>	<u>MBC</u>	<u>TOTAL</u>	<u>CURRENT CONTRACT</u>
CURRENT NOV. '97	\$2.5	\$1.6	\$0.0	\$4.10	\$3.6
Final '96	\$3.5	\$0.02	\$0.0	\$3.52	\$3.5

CONTRACT LEVELS/CIRC. CPM INDEX vs. YEAR AGO		
	<u>CONTRACT LEVEL (MM)</u>	<u>CPM INDEX</u>
CURRENT LEVEL	\$3.6	94
NEXT HIGHER LEVEL	\$4.1	88
NEXT LOWER LEVEL	\$2.6	106

CURRENT STATUS OF VOLUMES VS. CONTRACT

	<u>Included</u>	<u>Not Included</u>
% Kraft Foods Prototypical	21%	
PM USA Cover Premiums	✓	

Moved to higher discount level since last meeting (\$3.6MM)

Approximately \$20M open away from next discount level (\$4.1MM)

- At \$4.1MM, savings of \$36M (\$22M - PM, \$14M - KF)

Recommend adding a regional page to earn added discount. Newsweek working on a scenario for spending savings

NEWSWEEK

Bonus structure:

1997 Newsweek Bonus Plan		
<u>Goal</u> <u>(\$MM)</u>	<u>Discount</u>	<u>Bonus Pages</u>
\$0-1.5	31%	0
\$1.6	36%	0
\$2.1	38%	1
\$2.6	42%	1
\$3.1	43%	2
\$3.6	44%	2
\$4.1	45%	3
\$4.6	46%	3
\$5.1	47%	4

Open Rate \$		\$MM			
1994		\$5.43			
1995		\$3.60			
1996		\$3.52			
1997 Proj.		\$4.10			
		1997 Circulation CPM Indices vs. 1996 Outgoing CPM's			
Newsweek	Disc. '96 Circ. CPM	\$2.1-2.5MM	\$2.6-3.1MM	\$3.1-3.5MM	Contract Goal \$3.6-4.0MM
	\$28.15	110	103	96	94
% Diff. vs. '96 \$		-32%	-16%	0	+16%

Note: Additional levels at \$0-1.6MM(130), \$1.6-2.1MM(121), \$4.1-4.5MM(88), \$4.6-5.1MM(86) and \$5.1MM+(81)